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RUEHNE/AMEMBASSY NEW DELHI 2795
RUEHLO/AMEMBASSY LONDON 7244
RUEHML/AMEMBASSY MANILA 2942
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C O N F I D E N T I A L SECTION 01 OF 03 ISLAMABAD 000655

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SUBJECT: ENERGY CRISIS AND LOADSHEDDING IMPAIRING ECONOMIC ACTIVITIES
WHILE BLAME GAME CONTINUES

Classified by: AMB Anne Patterson for reasons 1.4(b) and (d)

¶1. (C) SUMMARY. Pakistan is currently experiencing severe electricity and gas shortages across the country due to insufficient energy generation capacity exacerbated by unprecedented cold weather. Some northern regions are currently suffering from 23 hours of power outage per day, while Islamabad fares much better with only 4 hours per day. Energy shortages are expected to worsen due to industrial expansion, population growth and the Government of Pakistan's inability to plan, execute and build additional generation capacity and implement needed reforms. This is the first in a series of cables on Pakistan's energy sector END SUMMARY.

¶2. (U) This is the first in a series of cables outlining the problems and challenges facing Pakistan's energy sector. Subsequent cables will focus on energy capacity in specific sectors such as coal, nuclear, hydro, solar, wind and gas as well as on recommendations for possible USG assistance to Pakistan in this critical field.

WORSENING CRISIS

¶3. (SBU) Pakistan is currently suffering through unprecedented winter weather, which has made public awareness of the energy crisis front and center among disgruntled citizens. The worst reported power outages, known locally as "loadshedding," in recent history have resulted in power outages across the country. Blackouts are occurring for approximately four hours per day in Islamabad and eight hours per day in Karachi. Lahore is experiencing blackouts for seven hours per day, Peshawar is suffering from twelve hours per day and at the extreme is twenty three hours per day in the remote Northern Areas. The rest of the country experiences varying amounts of loadshedding, but the one consistency across the country is that no region or socioeconomic group is spared from the blackouts and energy crisis.

¶4. (SBU) Government of Pakistan (GOP) policy stipulates that domestic consumers are given usage preferences over industrial consumers. This policy, combined with the prolonged cold weather, has drastically reduced the production capabilities of many industrial sectors across the country. Many industrialists rely upon generators to keep their factories humming; however, Pakistan is also currently facing a severe natural gas shortage which has hit the industrialists like a double-edged sword. Many factories are slowing production or simply closing down for either several days or weeks due to a lack of electricity and gas, which thus raises concern for public protests as workers are temporarily laid off. Sectors

particularly hard hit are textile yarn spinners and fabric makers, apparel, leather, fertilizer, sporting goods, surgical goods, mining and marble. These industries, which generate the major employment sectors nationwide, are Pakistan's principal exports and industrialists report their inability to meet demand for current orders from international buyers. The implications for lost revenue and earnings for future orders will not be felt for several months yet; however, continued GDP growth targets of 7 to 8 percent will be virtually impossible to meet given the continuing energy crisis.

15. (SBU) This reduction in industrial productivity has translated into job losses to tens of thousands of day laborers at a time when the price of basic commodities is increasing dramatically across the country. Textile industry officials have also stated that the unannounced loadshedding has damaged millions of dollars of fabric during production as well as damaged sensitive textile machinery due to power surges and abrupt outages.

BASIC SUPPLY VERSUS DEMAND

16. (SBU) The rise in electricity demand has been driven by increasing economic prosperity and population growth. Pakistan's average GDP growth rate of 7 percent over the last five years has translated into approximately 750,000 air conditioners installed in the recent past as well as approximately 500,000 refrigerators and equivalent numbers of other electric appliances, which have driven energy demand up nationwide.

17. (SBU) Pakistan's major energy consuming sectors are industrial at 38.3 percent of total demand; transport at 32 percent; residential and commercial at 25 percent; agriculture at 2.5 percent and other at

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2.2 percent. Energy demand has historically been suppressed in Pakistan due to limited supplies and an overall lack of adequate infrastructure. This suppressed demand has historically adversely affected development in all sectors of the economy.

18. (SBU) The total energy shortfall currently is 33 percent, but if GDP growth continues at 6 to 7 percent and if the population continues to expand at current levels of 1.8 percent annually, the energy shortfall may widen to 50 percent by 2020. Pakistan has a total grid capacity of 19.5 Gigawatts (GW) out of which 6.5 GW are hydro power plants, which can only run at peak capacity during the summer months. The remaining capacity is comprised of around 12.5 GW from thermal power plants, which includes oil-based capacity of approximately 6.5 GW and gas based capacity of approximately 6 GW. Nuclear energy represents 0.9 percent of total Pakistani electricity generation with a total output of 462 MW.

19. (SBU) Currently, in winter 2007-2008, the power demand is around 12.5 GW but only 10 GW is available due to limited availability of water for the hydro plants and the increase in domestic usage of gas for heating. Pakistan's hydro power generation drops to 1.9 GW in the winter months due to limited availability of water. Only about 2 GW is being produced on gas instead of the installed capacity of 6 GW due to natural gas shortages.

110. (SBU) During the summer months of 2007, Pakistan's Water and Power Development Authority (WAPDA) states that the power deficit was 2.4 GW and further projects this shortfall will increase by 10 percent to 12 percent annually due to industrial growth and consumer demand. Karachi, Pakistan's most populated city and industrial hub, will be especially hard hit with power outages in 2008. Karachi's demand is expected to be around 2640 MW in summer 2008, and the available supply is only 1810 MW.

111. (SBU) To put the statistics in another context, 53 percent of Pakistan's total power generation at present is based on water and oil. Approximately 20 percent of this is based on very expensive imported oil and 44 percent is based on rapidly depleting gas fields. Some 33 percent of Pakistan's total generation is dependent on Mother Nature's generosity with rains and water.

HISTORY OF NEGLECT WITH LITTLE CAPACITY AT PRESENT

¶12. (SBU) The current energy crisis is the result of prolonged negligence on the part of the government to deal with normal growth in energy demand. The state-owned utility companies are currently trying to place the blame for the energy shortages on the post Benazir Bhutto assassination violence during which several large transformers in Karachi were destroyed and two gas lines were sabotaged; yet the commentators on television, radio and newspapers are quick to point out that power outages were inevitable due to the federal government's inability to add a single megawatt of electricity to the national grid since 2003.

¶13. (SBU) The GOP first issued an energy strategy in 1994 during Benazir Bhutto's second term as Prime Minister. The Ministry of Water and Power has subsequently reissued national energy policies in 1995, 1998, and 2002 -- all were widely perceived to be failures. These policies failed to find a way to take full advantage of Pakistan's considerable hydro, coal and gas resources, and instead rely on imported furnace oil whose price has skyrocketed in recent years.

¶14. (SBU) Further complicating the energy situation are massive gasoline subsidies which the general population depends on at the pump. The Government of Pakistan has not passed on the rising cost of imported oil and gas to the consumers since January 2007 when world oil prices were at USD 55 per barrel. The GOP has told Embassy officials that increases in the current subsidies will not be considered until after elections, and thus, continue to drain the GOP coffers and contribute to the worsening current account deficit.

¶15. (C) COMMENT. The GOP backed itself into a corner by not making a significant investment in energy generation earlier. Opportunities for foreign investment have also been squandered due to indecisiveness by the GOP, and bickering and corruption among ministries involved in energy policy. Pakistan's severe winter weather, routine hydro maintenance work, and sabotage following Bhutto's assassination have brought the system to the point of

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breakdown. The most significant casualties are Pakistan's industries, particularly in the export sector. Most are effectively paying twice for energy - once for their installed gas and electric supplies and again for diesel-powered generators. Combined with increased food prices, the constant power outages provide more reasons for Pakistanis to be disgruntled. END COMMENT.

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